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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 A.M.
JANUARY 29, 1986

TESTIMONY OF
CHARLES A. BOWSER
COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE THE
COMMITTEE ON ENERGY AND COMMERCE
UNITED STATES HOUSE OF REPRESENTATIVES
ON
IMPLEMENTATION
OF THE BALANCED BUDGET AND EMERGENCY
DEFICIT CONTROL ACT OF 1985



Mr. Chairman and Members of the Committee:

I am pleased to appear before the Committee to discuss our experience this year in the implementation of the Balanced Budget and Emergency Deficit Control Act of 1985.

We issued our report on January 21. I would like to offer a copy of the report for the record. Copies have been provided to you, Mr. Chairman, and to the other Members of the Committee.

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We changed a number of accounts, 18 for defense programs and 38 for non-defense. However, these changes were not sufficient in the aggregate to alter the general percentage reductions of 4.9 percent for defense and 4.3 percent for non-defense programs, as contained in the report we received from OMB and CBO.

The principal change in defense programs was to add to the sequester base about \$6.3 billion of unobligated balances available for transfer. The effect of this addition is to increase the amount of the sequester by \$309 million, with associated outlays of \$45 million.

In non-defense programs, there were a variety of changes in both directions. Unlike defense programs, there is no way to represent the change in the sequester base or in the amount of the sequester by single figures because various sorts of budgetary resources were affected and they cannot be added. However, the change in the outlays associated with the sequester is quite small--a net increase of about \$3 million--and that is indicative of the size of the changes we made.

Attached to my statement is a listing of the accounts where we made changes, showing the amount of each change. Each of these changes is explained in Appendix A of our report, in a narrative accompanying the table which shows the change being made. We would be happy to discuss any of the changes about which you or the other Members of the Committee may have questions.

The first year implementation of the Act has been accomplished successfully to this point. However, the process is not yet complete. The President has not yet issued his order, and the operating departments and agencies have not yet implemented the required reductions.

You have asked particularly about the manner in which the Act requires sequestration in non-defense accounts to be carried out at the program, project and activity level. For defense programs, the OMB/CBO Report and our report specify the required reductions by program, project and activity. For non-defense programs, reductions are specified by account. However, the Act requires that all the programs, projects and activities in an account in the non-defense area be reduced by the same percentage under the President's February 1 order. We will be monitoring compliance with this and other requirements of the Act in connection with the preparation of our April report to the President and the Congress.

In conclusion, I would like to thank OMB and CBO for the cooperation we received from them.

That completes my prepared statement, Mr. Chairman. I will be pleased to respond to any questions which you or other Members of the Committee may have.

Summary of GAO Changes
(in millions of dollars)

| Part I - Defense Program Accounts | GAO Changes in | | | |
|--|-----------------------|---------------------------|------------------|---------------------------|
| | Sequester Base | Associated Outlays | Sequester | Associated Outlays |
| Aircraft Procurement, Navy | 551.3 | 49.1 | 27.0 | 2.4 |
| Weapons Procurement, Navy | 15.0 | 1.6 | 0.7 | 0.1 |
| Shipbuilding and Conversion Navy | 1,999.3 | 124.6 | 98.0 | 6.1 |
| Other Procurement, Navy | 276.5 | 29.7 | 13.5 | 1.5 |
| Aircraft Procurement, Army | 117.9 | 17.7 | 5.8 | 0.9 |
| Missile Procurement, Army | 66.5 | 4.8 | 3.3 | 0.2 |
| Other Procurement, Army | 257.5 | 20.6 | 12.6 | 1.0 |
| Procurement of Weapons and Tracked Combat Vehicles, Army | 590.3 | 26.4 | 28.9 | 1.3 |
| Procurement of Ammunition, Army | 178.1 | 48.1 | 8.7 | 2.4 |
| Procurement, Marine Corps | 47.7 | 4.6 | 2.3 | 0.2 |
| Aircraft Procurement, Air Force | 1,110.4 | 76.2 | 54.4 | 3.7 |
| Missile Procurement, Air Force | 82.8 | 19.7 | 4.1 | 1.0 |
| Other Procurement, Air Force | 347.5 | 165.7 | 17.0 | 8.1 |
| Procurement, Defense Agencies | 36.0 | 9.2 | 1.8 | 0.5 |
| RDT&E, Defense Agencies | 82.0 | 37.9 | 4.0 | 1.9 |
| RDT&E, Navy | 188.0 | 96.3 | 9.2 | 4.7 |
| RDT&E, Army | 96.1 | 49.3 | 4.7 | 2.4 |
| RDT&E, Air Force | 264.0 | 128.0 | 12.9 | 6.3 |
| Total, Part I | 6,306.9 | 909.5 | 309.0 | 44.6 |

Summary of GAO Changes (continued)
(in millions of dollars)

| Part II - Non-Defense Program Accounts | GAO Changes in | | | |
|---|-------------------|-----------------------|-----------|-----------------------|
| | Sequester Base | Associated Outlays | Sequester | Associated Outlays |
| <u>Funds Appropriated to the President</u> | | | | |
| <u>Agency for International Development</u> | | | | |
| Housing and Other Credit Guaranty Programs | | | | |
| Unobligated Balances - Admin. | -6.0 | -4.5 | -0.3 | -0.2 |
| <u>Overseas Private Investment Corporation</u> | | | | |
| Overseas Private Investment Corp. | | | | |
| Unobligated Balances - Admin. | -12.4 | -11.8 | -0.5 | -0.5 |
| <u>Department of Agriculture</u> | | | | |
| <u>Farmers Home Administration</u> | | | | |
| Agricultural Credit Insurance Fund | | | | |
| Obligation Limitation | 75.8 | 75.8 | 3.3 | 3.3 |
| Rural Housing Insurance Fund | | | | |
| Obligation Limitation | 56.0 | 56.0 | 2.4 | 2.4 |
| <u>Department of Commerce</u> | | | | |
| <u>General Administration</u> | | | | |
| Salaries and Expenses | | | | |
| Unobligated Balances - Admin. | -4.6 | -4.6 | -0.2 | -0.2 |

Summary of GAO Changes (continued)
(in millions of dollars)

| Part II - Non-Defense Program Accounts | GAO Changes In | | | |
|---|-------------------|-----------------------|-----------|-----------------------|
| | Sequester Base | Associated Outlays | Sequester | Associated Outlays |
| <u>Department of Commerce</u> | | | | |
| <u>National Oceanic and Atmospheric Administration</u> | | | | |
| Federal Ship Financing Fund, Fishing Vessels | | | | |
| Unobligated Balances - Admin. | -1.3 | -1.3 | -0.1 | -0.1 |
| Fishing Vessel and Gear Damage Compensation Fund | | | | |
| Unobligated Balances - Admin. | -0.2 | -0.2 | * | * |
| Fishermen's Contingency Fund | | | | |
| Unobligated Balances - Admin. | -0.1 | -0.1 | * | * |
| <u>National Bureau of Standards</u> | | | | |
| Working Capital Fund | | | | |
| Budget Authority | 2.1 | 1.6 | 0.1 | 0.5 |
| <u>Department of Defense - Civil</u> | | | | |
| <u>Corps of Engineers - Civil</u> | | | | |
| General Expenses | | | | |
| Unobligated Balances - Admin. | -3.4 | -3.4 | -0.1 | -0.1 |

Summary of GAO Changes (continued)

(in millions of dollars)

| Part II - Non-Defense Program Accounts | GAO Changes in | | | |
|---|-------------------|-----------------------|-----------|-----------------------|
| | Sequester Base | Associated Outlays | Sequester | Associated Outlays |
| <u>Department of Education</u> | | | | |
| <u>Office of Postsecondary Education</u> | | | | |
| College Housing Loans | | | | |
| Unobligated Balances - Admin. | -4.1 | -1.2 | -0.2 | -0.1 |
| <u>Department of Energy</u> | | | | |
| <u>Energy Production</u> | | | | |
| Alternative Fuels Production | | | | |
| Unobligated Balances - Admin. | -0.2 | -0.2 | * | * |
| <u>Power Marketing Administration</u> | | | | |
| Operation and Maintenance, South- eastern Power Administration | | | | |
| Unobligated Balances - Admin. | -1.0 | -0.9 | * | * |
| <u>Department of Health and Human Services</u> | | | | |
| <u>Alcohol, Drug Abuse, and Mental Health Admin- istration</u> | | | | |
| Federal Subsidy for St. Elizabeth's Hospital | | | | |
| 401(C) Authority - Off. Collections | -25.0 | -25.0 | -1.1 | -1.1 |

Summary of GAO Changes (continued)
(in millions of dollars)

| Part II - Non-Defense Program Accounts | GAO Changes In | | | |
|--|-------------------|-----------------------|-----------|-----------------------|
| | Sequester Base | Associated Outlays | Sequester | Associated Outlays |
| <u>Department of Health and Human Services</u> | | | | |
| <u>Social Security Administration</u> | | | | |
| Child Support Enforcement | | | | |
| Unobligated Balances - Admin. | -1.2 | -1.2 | -0.1 | -0.1 |
| Federal Old Age and Survivors Insurance Trust Fund | | | | |
| Unobligated Balances - Admin. | -121.3 | -40.0 | -5.2 | -1.7 |
| <u>Department of Housing and Urban Development</u> | | | | |
| <u>Government National Mortgage Association Management and Liquidating Functions Fund</u> | | | | |
| Unobligated Balances - Admin. | -1.0 | -1.0 | * | * |
| Rehabilitation Loan Fund | | | | |
| Unobligated Balances - Admin. | -19.7 | -19.7 | -0.8 | -0.8 |
| <u>Department of Justice</u> | | | | |
| <u>Office of Justice Programs Justice Assistance</u> | | | | |
| Unobligated Balances - Admin. | -3.4 | -0.4 | -0.1 | -0.1 |

Summary of GAO Changes (continued)
(in millions of dollars)

| Part II - Non-Defense Program Accounts | GAO Changes in | | | |
|---|-------------------|-----------------------|-----------|-----------------------|
| | Sequester Base | Associated Outlays | Sequester | Associated Outlays |
| <u>Department of Treasury</u> | | | | |
| <u>Financial Management Service</u> | | | | |
| Energy Security Reserve | | | | |
| Unobligated Balances - Admin. | -3.0 | -3.0 | -0.1 | -0.1 |
| <u>United States Customs Service</u> | | | | |
| Miscellaneous Permanent Appropriations | | | | |
| Budget Authority | 105.0 | | 4.5 | |
| Obligation Limitation | -20.4 | | -0.9 | |
| Outlays | | 84.6 | | 3.3 |
| <u>Internal Revenue Service</u> | | | | |
| Internal Revenue Collections for Puerto Rico | | | | |
| Budget Authority | 245.0 | 245.0 | 10.5 | 10.5 |
| <u>Comptroller of the Treasury</u> | | | | |
| Assessment Funds | | | | |
| 401(C) Authority | 23.9 | | 1.0 | |
| 401(C) Authority | | | | |
| Off.Coll. | 9.4 | | 0.4 | |
| Outlays | | 32.7 | | -1.4 |
| <u>Environmental Protection Agency</u> | | | | |
| Hazardous Substance Response Trust Fund | | | | |
| Unobligated Balances - Admin. | -39.5 | -33.9 | -1.7 | -1.5 |

Summary of GAO Changes (continued)
(in millions of dollars)

| Part II - Non-Defense Program Accounts | GAO Changes In | | | |
|---|-------------------|-----------------------|-----------|-----------------------|
| | Sequester Base | Associated Outlays | Sequester | Associated Outlays |
| <u>Small Business Administra- tion</u> | | | | |
| Salaries and Expenses | | | | |
| Unobligated Balances - Admin. | -90.0 | -90.0 | -3.9 | -3.9 |
| White House Conference on Small Business | | | | |
| Unobligated Balances - Admin. | -1.0 | -1.0 | * | * |
| <u>District of Columbia</u> | | | | |
| Federal Payment to the District of Columbia | | | | |
| Budget Authority | -39.6 | -39.6 | -8.5 | -8.5 |
| Transitional Payment for St. Elizabeth's Hospital | | | | |
| Budget Authority | 25.0 | 25.0 | 1.1 | 1.0 |
| Criminal Justice Initiative | | | | |
| Budget Authority | 13.9 | 13.9 | 0.6 | 0.6 |
| Student Dropout Prevention Initiative | | | | |
| Budget Authority | 0.2 | 0.2 | * | * |
| Job Training Initiative | | | | |
| Budget Authority | 0.5 | 0.5 | * | * |

Summary of GAO Changes (continued)
(in millions of dollars)

| Part II - Non-Defense Program Accounts | GAO Changes In | | | |
|--|-------------------|-----------------------|-----------|-----------------------|
| | Sequester Base | Associated Outlays | Sequester | Associated Outlays |
| <u>District of Columbia</u> | | | | |
| Court Study | | | | |
| Budget Authority | 0.1 | 0.1 | * | * |
| <u>Federal Deposit Insurance Corporation</u> | | | | |
| Federal Deposit Insurance Corporation | | | | |
| 401(C) Authority Off. Coll. | 8.2 | 8.2 | 0.4 | 0.4 |
| <u>Other Independent Agencies</u> | | | | |
| <u>Other Historical and Memorial Agencies</u> | | | | |
| Christopher Columbus Quincentenary Jubilee Commission | | | | |
| Unobligated Balances - Admin. | -0.2 | -0.2 | * | * |
| <u>Washington Metropolitan Area Transit Authority</u> | | | | |
| Interest Payments | | | | |
| Budget Authority | 25.8 | 25.8 | -1.1 | -1.1 |
| <u>National Endowment for the Arts</u> | | | | |
| Grants and Administration | | | | |
| Unobligated Balances - Admin. | -0.2 | * | * | * |

Summary of GAO Changes (continued)
(in millions of dollars)

| Part II - Non-Defense Program Accounts | GAO Changes In | | | |
|---|---------------------------|-------------------------------|------------------|-------------------------------|
| | Sequester Base | Associated Outlays | Sequester | Associated Outlays |
| <u>Other Independent Agencies</u> | | | | |
| <u>Railroad Retirement Board</u> | | | | |
| Milwaukee Railroad Restructuring, Admin. | | | | |
| Unobligated Balances - Admin. | -0.2 | * | * | * |
| <u>Corporation for Public Broadcasting</u> | | | | |
| Public Broadcasting Fund | | | | |
| Budget Authority | 159.5 | 159.5 | 0 | 0 |
| Totals, Part II | | | | |
| Budget Authority | 537.4 | | 7.3 | |
| 401(C) Authority | 23.9 | | 1.0 | |
| 401 (C) Authority - Off. Coll. | -7.5 | | -0.3 | |
| Obligation Limitation | 111.3 | | 4.8 | |
| Unobligated Balances - Admin. | -312.9 | | -13.4 | |
| Outlays | | 445.5 | | 3.3 |

* = Amounts less than \$50,000

Matters for ConsiderationA. Statutory changes for consideration

We noted 5 instances in which the outcome of applying the rules does not appear to be consistent with the general approach taken with regard to other programs.

1. Washington Metropolitan Area Transit Authority

The Act requires a reduction in the annual appropriations to meet the Government's obligation to pay part of the debt service on Washington Metropolitan Area Transit Authority bonds. If the Government's failure to make its full payment led to a default on the bonds, the Government would still have to pay because the Federal Government has guaranteed the bonds. We believe it would be reasonable to exempt this program.

2. Federal Annuitant Health Insurance

The Act does not exempt the appropriation for the Federal share of Federal retirees' health insurance premiums from reduction even though the Act provides for no change in the health insurance program for Federal employees. We believe it would be reasonable to exempt this program.

3. Railroad Unemployment Insurance

Payment of unemployment insurance compensation by the Railroad Retirement Board from the Federal Unemployment Trust Fund is not exempt from reduction under the Act, even though payments of regular unemployment compensation by States from that fund are exempt. We believe it would be reasonable to treat railroad unemployment the same as regular unemployment compensation.

4. Panama Canal

Because of prior Treaty obligations, the savings resulting from administrative cost reductions of the Panama Canal Commission accrue to the benefit of the Republic of Panama rather than to the United States Government.

5. Mine Worker Exemption

Section 256(i) and section 257(1)(A) of the Act are redundant. Both have the effect of limiting reductions in disability benefits under the Federal Mine Safety and Health Act to the reduction or elimination of automatic spending increases.

B. Treatment of Discrepancies between program names and account listings

In at least two accounts exempted by section 255(h), a relatively small amount is appropriated for a program that, though similar in purpose to the exempted program, is not the program named in the Act. These are the adult categorical amounts contained in the Assistance Payments (Aid to Families with Dependent Children) Account (75-0412-0-1-609) and the commodity supplemental food program contained in the Feeding Program for Women, Infants and Children (WIC) Account (12-3510-0-1-605).

C. Definition of Account

Public Law 97-177 defines an account as "an item for which appropriations are made in any appropriation Act." It is not entirely clear what constitutes an "item" in an appropriation. For example, the District of Columbia appropriation act includes eight specified amounts under six separate headings. It is not clear whether this constitutes one, six, or eight accounts.

D. Administrative expenses funded from unobligated balances

Section 256(b) of the Act requires reduction of administrative expenses even in otherwise exempt accounts. However, prior year unobligated balances of non-defense agencies are not included in the sequesterable base as defined for those agencies. It is, therefore, not entirely clear whether administrative expenses funded from non-defense unobligated balances should be reduced.

E. Offsetting collections

Section 251 of the Act includes within the sequesterable base for non-defense agencies "spending authority." Spending authority is in turn defined, under another provision of the Act, to include authority "to make payments by the United States (including loans, grants, and payments from revolving funds) *** the budget authority for which is not provided in advance by appropriation acts." There is some uncertainty as to whether this language includes offsetting collections credited to an account.

F. OTHER ISSUES

1. Scorekeeping

There is a need to assure the consistent application of conventions concerning the treatment of some of the less common types of budgetary transactions. This involves such things as reappropriations, obligation limitations, and offsetting collections, where inconsistent application of the conventions could produce inconsistent results.

2. Timing of economic assumptions

Economic assumptions were largely irrelevant to this year's sequestration determination because the maximum permissible sequestrations would have occurred under most plausible sets of assumptions. In the future years, variations in economic assumptions will produce variations in sequestration results. The current process provides no statutory mechanism for separating those estimating differences attributable to economic assumptions from the other estimating differences or for agreeing in advance to a common set of economic assumptions.

3. Timing of data sharing

OMB and CBO's sharing with GAO of preliminary data, in compatible machine-readable form in most cases, facilitated GAO's process. It will be especially important for this cooperation to continue in the future when GAO will have one day less to make its determinations.

4. "Program" versus "Administrative" Expenses

Some programs were exempt while the administrative expenses were not. For example, the Postal Service fund is exempt, while the administrative expenses of the Postal Service are not; and payments from the Social Security Trust Fund to beneficiaries are exempt while the administrative expenses of the Social Security Administration are not. There was some difficulty in distinguishing between "program" and "administrative" expenses. These difficulties were overcome, but the Congress may wish to review the results and refine the legislation if the results are not what was expected.

5. Outlay estimating

Different agencies use different methodologies and a variety of data bases in estimating outlays and in particular spend-out rates. These produce different estimates. We sometimes found it difficult to distinguish between differences which resulted from different methodologies from those which reflected different program assumptions.